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DEPT FOR USAID/LAC, DAA MIKE MAGAN, DEPT FOR PEACE CORPS,  
DEPT FOR WHA/CEN - DAS KIRSTEN MADISON

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SUBJECT: VISIT TO NICARAGUAN DEPARTMENTS OF LEON AND  
CHINANDEGA BY DAS MADISON AND DAA MAGAN

REF: A. MANAGUA 715

[1](#)B. 05 MANAGUA 2747

[1](#)1. (SBU) Summary: During their April 25 visit to the departments of Leon and Chinandega, DAS Kirsten Madison and USAID DAA Mike Magan repeated the USG's commitment to strengthening democracy, the rule of law and economic growth in Nicaragua, and explored the views of local business and political leaders on these topics. Although their opinions varied, these leaders were all concerned that political instability and high energy and transportation costs could hamper an otherwise promising economic picture in this impoverished but economically strategic region. Although both departments are hotbeds of Sandinista (FSLN) support, Madison and Magan learned that local Sandinista leaders are working cooperatively with the mission and Government of Nicaragua (GON) in order to achieve maximum economic success for the region from the USD 175 million granted for Millennium Challenge Account (MCA) projects over the next five years. They also visited a USAID/Global Development Alliance-supported school and an effective USAID market-based agricultural project, and were briefed on Peace Corps activities in northwestern Nicaragua. End Summary.

Business Leaders Mostly Bullish on Economy  
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[1](#)2. (U) Background: Until the late 1970's, Leon and Chinandega flourished. They were centers of agricultural production, especially cotton, as well as light manufacturing. The region also benefited from a bustling international port at Corinto, train service, and highway access to Costa Rica, Honduras and El Salvador. Today, these departments are amongst the poorest in Nicaragua. Neglected infrastructure, low levels of education, land title disputes and unused agricultural land all contribute to economic instability. However, the region remains economically strategic. With productive soil, a high water table, beautiful beaches and countryside and the capacity to be a transportation hub, the GON, USG and international donors have targeted Leon and Chinandega for assistance in hopes that the area can once again be an economic engine for all of Nicaragua. End Background.

[1](#)3. (SBU) DAS Madison and DAA Magan held two meetings with business leaders in Leon and Chinandega. Two bankers and the operations manager of ARNECOM (a Japanese/Mexican autoparts manufacturer that exports to the U.S. and worldwide) participated in the first meeting, and a shrimp farm owner and non-traditional agricultural product exporters in the second. These interlocutors are optimistic about prospects for economic growth in the region. The bankers cited examples of their clients seeking new loans to expand agricultural production, especially for peanuts and sugarcane. They also noted that several Nicaraguan and international investors are looking to expand tourism activities in the area with projects ranging from small hotels to major resort complexes. While there was some grumbling about interest rates, AMCIT Larry Drazba, owner of the shrimp operation, noted that investment is growing, as banks are now much more willing to lend than they had been in the past.

[1](#)4. (U) All of the business people said that there is already a new mentality in the region thanks to the Central American Free Trade Agreement (CAFTA), which the bankers say has led farmers and manufacturers to increase production and improve processing quality. Jose Saldivar, the ARNECOM manager, said that his firm plans to expand. He noted that the city of Leon is home to Nicaragua's premier university, providing the capacity for development of an engineering and technology sector in the local economy. The exporters of farm-raised shrimp, exotic flowers, okra, squash and other non-traditional exports, reported that they are expanding operations and hiring more people. They see both CAFTA and the MCA projects as a boon for the region and country.

The Caveats  
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[1](#)5. (SBU) Despite their generally positive outlook about the economic picture, the business leaders highlighted some areas of concern. They lan  
Business Leaders Reluctant to Put Their Money Where Their Mouths Are on Political Reform  
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[1](#)6. (SBU) The bankers noted that several potential major investors are taking a "wait and see" approach, pending Nicaragua's November elections. The business leaders in the meetings expressed special concern about the possibility of a FSLN victory. Some also noted that given the high levels of corruption and resultant marketplace inefficiencies under the presidency of convicted felon Arnoldo Aleman, a win by the Aleman-dominated Liberal Constitutionalist Party (PLC) would also give them pause. Almost everyone agreed that reformist candidate Eduardo Montealegre would be better for economic stability and growth.

[1](#)7. (SBU) When DAS Madison asked if, because of their concerns, it was not incumbent upon the private sector to

throw their support behind one of the other candidates who would be better for the investment and business climate, some admitted that their outright fear of the FSLN and concerns about the ability of Montealegre to win kept them from giving him their full backing. Saldivar, who is Mexican, said that he preferred to stay out of politics and that his firm believes it can do well in Nicaragua under any government. The firm has a contingency plan in the case of political turmoil. One participant, who had been vocal in his criticism of the PLC said, "I'm too busy taking care of business to get involved in politics."

18. (SBU) Rodolfo Castillo, manager of a major agricultural exporting operation (owned by Eduardo Gomez, president of the National Assembly), expressed his view that the USG would be well served to better publicize its economic assistance to Nicaragua, rather than emphasizing the political situation as much as has been the case over the last several months. Despite calling the PLC a mafia controlled by gratitude and fear, Castillo said that stability is the most important goal and that the "Aleman problem" should be postponed until after the Sandinistas are defeated since the PLC is the dominant political force in Nicaragua. He also called on the US to give direct political aid to "democratic forces."

19. (SBU) DAA Magan pointed out that the USG does not endorse candidates and that our goal is to provide the "political space" for a democratic candidate to be elected in a fair election. As they did in other meetings, DAS Madison and DAA Morgan emphasized that the United States sees the PLC under Aleman as equally unacceptable to the United States as Daniel Ortega and the FSLN. (Comment: The ambivalence of upper class Nicaraguans who clearly label Aleman as a debilitating political force but are reluctant to work for his ouster is a common theme in Nicaraguan politics. End Comment.)

110. (SBU) A minority of participants in the meetings agreed that Nicaragua needs business leaders to support political reform and forward looking leaders in order to have a truly vibrant economy and to take advantage of opportunities like CAFTA and MCC. Vicente Salmeron, an exporter of sesame seeds and beneficiary of USAID-funded technical expertise, spoke to their views by arguing that Nicaragua possesses all of the necessary tools for economic success but that if a "bad actor" is elected, the consequences for all of Central America would be dire. He said he would support either Eduardo Montealegre or Sandinista dissident Herty Lewites (or even a ticket with both). He explained that the traditional parties are still powerful forces because they have organized structures. In his view, the PLC and FSLN can only be defeated with a "long-term, grass roots, bottom up" effort that should begin this year, even if the reformist forces do not win this time.

111. (SBU) Drazba opined that Nicaragua is different than countries like Bolivia, because most Nicaraguans want to see change continue. He also

#### Local Development Councils Ready to Work - Not So Ready to Talk Politics

112. (SBU) Key representatives of the Departmental Development Councils of Leon and Chinandega who participate in MCA planning were eager to share their enthusiasm for the integrated development assistance package and talk about the harmonious way in which this politically diverse group of civic leaders has maintained unity. Reflecting their approach to maintaining that togetherness, most were reluctant to share more than cursory political views. Even so, their experience does offer a hopeful example of Nicaraguans working for the greater good from across the partisan divide. Each development council includes representatives of municipalities (13 in Chinandega, 10 in Leon), and other organizations including NGO's, business chambers and police.

113. (SBU) The Development Council members continue to support the three main elements of Nicaragua's MCA Compact - USD 92.8 for transportation, 26.5 million for property regularization and 33.7 million for rural business development. Several participants also emphasized their commitment to dispensing the program funds transparently and apolitically. Despite the overwhelmingly strong influence of the FSLN on the local governments of Leon and Chinandega (as well as many of the NGO's), participants took pride in recounting how well they have worked with the Bolanos Administration and PLC leaders in the National Assembly to advance the program.

114. (SBU) The Development Council members were unwilling, however, to admit that the national elections have much import as related to MCA. Comments like "I don't see a political problem," "We don't have to worry," and "The MCA is a local - not national issue" summed up the general consensus. When one participant mentioned that the United States is not on good terms with the FSLN and that this might be a cause for our concern, DAS Madison explained that our country is actually equally concerned about the PLC with Aleman. She said that as long as Aleman is at the heart of the PLC, that party will have a profound and demonstrated capacity for corruption.

115. (SBU) Comment: According to the MCC Country Director, many Development Council members have privately stated that they understand the importance of the national elections for Nicaragua's MCC Compact. They were simply being guarded in their comments in such a well attended forum. End Comment.

#### Visits to USAID and Peace Corps Projects

116. (U) DAS Madison and DAA Magan toured Escuela Jacinta y Francisco in Leon, a public school operated by the Catholic Church that also serves as an alternative home for at-risk, orphaned and abandoned children. The school is part of a USAID-financed \$11.5 million EXCELENCIA Project (2005-2009). The objective of the program is to expand nationwide an enhanced educational model that promotes active teaching, learning and community participation, which is strengthened by the application of a reformed, competency-based curriculum. Through a network of mentor and mentored schools, approximately 400,000 students will be exposed to the active teaching and learning method over the life of the project. Madison and Magan visited a first grade classroom and made a donation of mathematical kits to the school.

117. (U) DAS Madison and DAA Magan visited a family-run farm and packaging center in Chinandega as it prepared shipments

of okra and squash for export to the United States. This medium-scale operation is part of the USAID Partnership for Food Industry Development (PFID) program, which is implemented by Michigan State University (MSU). The farm was the first business to ship a container from Nicaragua to the United States after CAFTA entry into force on April 1. On the day of the visit, two owners of nearby farms were on hand to learn more about the operation in hopes of duplicating its success.

¶18. (U) PFID links small and medium-scale farmers to buyers who supply regional and international supermarkets. It uses a market approach to i

¶19. (U) DAS Madison and DAA Magan met in the home of a Peace Corps volunteer in La Paz Centro with several of her enthusiastic colleagues. The volunteers described educational, business development, environmental and other projects that they are working on. Following a discussion of their experiences, Madison and Magan visited a successful Peace Corps project in the town, where local artisans were helped to develop a business model and create an attractive venue to sell their crafts directly to the public, rather than to low-balling middlemen.

¶20. (U) DAS Kirsten Madison cleared on this cable.

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